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DAVID E. JANSSEN
Chief Administrative Officer

July 1, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Medi-Cal Hospital Financing

Today, the Disproportionate Share Hospital (DSH) Task Force, of which the County is a member, met with representatives of the California Health and Human Services Agency and the California Department of Health Services to further discuss the Administration's proposed changes to Medi-Cal supplemental payments to safety net hospitals. The DSH Task Force presented the attached letter to the Administration. The letter indicates that the proposed new hospital financing approach may weaken Medi-Cal funding to safety net hospitals by at least $530 million according to a preliminary analysis by the California Association of Public Hospitals. In response, the Administration is seeking to validate the findings of this preliminary analysis and discuss its conclusions at a future meeting.

Pursuit of County Position on Legislation

Longer Combination Vehicles (Triple-Trailers). AB 3048 (Oropeza), SB 1210 (Torlakson), and SB 1793 (McPherson) have been amended to delete their original subjects and substitute identical intent language into each bill that would explore alternate financing and delivery methods for transportation projects, including design-build, design sequencing, and various forms of private financing. It is our understanding that these bills will be sent to a conference committee where, as part of a conference report, language may be included to authorize the use of Longer Combination Vehicles (LCV), also known as triple-trailers.

LCV trucks are defined as having a combined vehicle weight greater than 80,000 pounds, or a truck-tractor with three trailers, or a truck-tractor with at least two trailers when at least one trailer is longer than 29 feet.

On August 19, 1997, the Board of Supervisors adopted an oppose position on the California Trucking Association's Demonstration Proposal to Congress for a project to allow triple-trailer trucks on California highways. On May 7, 2003, the County supported SJR 7 (Karnette) which requested the President and Congress to maintain the present Federal restrictions on truck lengths and weights included in TEA 21, and to resist any changes in subsequent legislation. Consistent with these prior Board actions to oppose proposals allowing larger combination vehicles to operate in California, **our Sacramento advocates will oppose any legislation which would increase the size or weight of combination vehicles.**

AB 3048 passed the Senate Transportation Committee on June 30, 2004 by a vote of 11 to 0, and will go to the Senate Appropriations Committee. SB 1210 and SB 1793 were withdrawn from the Assembly Appropriations Committee and sent to Assembly third reading on June 29, 2003.

Status of County-Interest Legislation

On June 28, 2004, provisions similar to those in **County-opposed AB 2300 (Dymally)** were amended into **AB 1927 (Dymally)**, which would require hospitals to annually review the use of, and consult with, professional, technical, and support staff through their recognized bargaining agents, and to revise staffing as needed to provide safe and adequate patient care. This revision of staffing would be in addition to compliance with the minimum licensed nurse-to-patient ratios established by regulations implementing AB 394 (Kuehl) of 1999. Consistent with County opposition to AB 2300, **our Sacramento advocates will now oppose AB 1927.**

County-supported AB 2446 (Montanez), which would expand the list of projects eligible for joint-use bond funding to include parks, recreation centers, cultural arts centers, technology centers, health clinics, and athletic fields, was amended on June 30, 2004 to reduce the facilities that might be eligible for grants, from those that are within two miles of a school site, to those that are adjacent to a school site, and to make gymnasiums, libraries, multipurpose-room child care facilities, and teacher education projects a priority for grants, if applications exceed the funds available. The Department of Parks and Recreation reports that, while these amendments narrow the benefits of the bill, the County should continue to support AB 2446.

County-neutral, AB 2666 (Maldonado), which would change the method used to allocate funds generated from a special off-highway vehicle (OHV) registration fee to counties and cities, was passed by the Senate Committee on Transportation on

June 30, 2004, by a vote of 11 to 0, and re-referred to the Senate Committee on Appropriations.

We will continue to keep you advised.

DEJ:GK
MAL:JF:DRS:JL:MS:ib

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Local 660
All Department Heads
Legislative Strategist
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

Attachment

P.E.A.C.H., INC.
Private Essential Access Community Hospitals

CALIFORNIA HEALTHCARE ASSOCIATION

CALIFORNIA ASSOCIATION OF PUBLIC HOSPITALS AND HEALTH SYSTEMS

children's HOSPITAL ASSOCIATION

July 1, 2004

S. Kimberly Belshé
Secretary
Health and Human Services Agency
1600 Ninth Street, Room 460
Sacramento, CA 95814

Dear Secretary Belshé:

This letter accompanies a preliminary analysis of the impact on safety net hospitals of the state's draft hospital financing proposal. The presentation, developed by the California Association of Public Hospitals and Health Systems and the Disproportionate Share Hospital (DSH) Task Force, concludes that the proposal as currently outlined would create a shortfall for these institutions of at least $530 million, compared to today's funding. This estimate is dependent on a series of assumptions and could change significantly based upon several factors that are enumerated below, potentially widening the gap to beyond $1 billion.

Before addressing the specific technical details, we would like to reiterate our commitment and willingness to work with the state of California to achieve our mutual goal of stability for the safety net. Clearly, the status quo is not acceptable and safety net institutions today are facing fiscal crises brought on by the rise in uninsured patients, the increasing costs of delivering health care and dwindling government support. Improving these circumstances will take changes in public policy, and we are eager and able to participate in the crafting of a vibrant future for California's health care system.

We have demonstrated this posture throughout the Medi-Cal redesign process, by participating in the stakeholder meetings, working directly with the Department of Health Services (DHS) and the Health and Human Services Agency and presenting our own ideas as well as providing detailed feedback to the administration on several aspects of the plan to restructure Medi-Cal. In particular, on the hospital financing proposal, there have been a number of collective and individual group discussions between Charles Miller, DHS and representatives from each of the DSH Task Force members. The DSH Task Force also provided a substantive list of questions to the Agency on May 21, which is attached for your convenience.

In evaluating the state's current financing proposal, we stress the need to ensure that any new funding mechanism achieves two fundamentals – a guarantee that existing funding levels are assured and impervious to challenge, and that there is room, opportunity and a mechanism for growth. The hospital financing proposal presents a real opportunity to stop the persistent unraveling of the safety net, or to quicken its demise. A major financial overhaul of a $2 billion

system, as envisioned, requires significant negotiations with all safety net institutions as well as substantial statutory changes that cannot necessarily be achieved within the proposed time frame.

As public and private institutions that are stewards of county, state and federal money, we consider it crucial to engage fully in the fiscal and public policies that determine the state's health care system. That is a role we have played consistently, and pledge to continue. Part of that function includes providing technical assistance and expertise, as well as political advocacy to ensure that the state's policies support the safety net and allow it to continue to do the essential work of providing health care for millions of Californians, including but not limited to the 6.6 million Medi-Cal beneficiaries and 6.4 million uninsured.

There are some key issues that currently confront us. Foremost is the overall Medi-Cal redesign process, an endeavor whose broad scale and tight timeline holds the potential to destabilize the safety net, and imperil the health care of millions of California's neediest residents, if the major undertakings considered are not studied and evaluated properly.

Indeed, the hospital financing plan must be considered in conjunction with the larger Medi-Cal restructuring proposal. For instance, the expansion of Medi-Cal managed care and the expected disenrollment resulting from the imposition of additional co-payments and deductibles would have a direct impact on both the state's fiscal goals and patients' access to care.

Paramount among our concerns is the possibility that the state will pursue moving the aged, blind and disabled (ABD) Medi-Cal population into managed care. This action would destabilize safety net financing under both the status quo and the new financing proposal. This shift does not appear in the state's current financing proposal, but remains a stated goal of Medi-Cal redesign, which we find troubling. It is also a pivotal factor in determining the performance of the new hospital financing proposal, and is critical to the future viability of the safety net.

Our preliminary analysis of the proposal could swing significantly, pushing the range of impact above $1 billion, depending on the resolution of several outstanding issues. These include:

- The scope of allowable costs and cost finding methodologies for determining CPEs
- Different CPE cost finding methodology for DSH payments
- Status and scope of plans for ABD in managed care and the related impact on hospital costs, and cost-finding methodologies for public and private hospitals
- Treatment of costs related to serving the undocumented
- A five-year projection of the state's plan, including the impact on a facility-specific basis
- Role of supplemental payments "above" costs and the computation of Medi-Cal UPL
- The impact on the University of California system, which is currently not included in our analysis
- Maintaining the current level of Medicaid payments to safety net hospitals
- Structural elements that allow additional state funding

We look forward to the completion of the analysis underway by Mr. Miller. Until then, we offer our preliminary evaluation of the hospital financing proposal, in hopes that it can help focus

attention on some of the key areas that must be addressed before a restructuring of California's hospital financing can be successful.

Sincerely,

California Healthcare Association

California Children's Hospital Association

California Association of Public Hospitals and Health Systems

Private Essential Access Community Hospitals

Los Angeles County

University of California

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Attachments

cc: David Topp, Assistant Secretary, HHS
Sandra Shewry, Director, Department of Health Services
Tom McCaffrey, Chief Deputy Director, Department of Health Services
Stan Rosenstein, Deputy Director, Medical Care Services, Department of Health Services